

**SOUTH CAROLINA  
COMMISSION ON HIGHER EDUCATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2017**



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 10, 2018

Jeff Schilz, Interim Executive Director  
and  
Members of the Commission  
South Carolina Commission on Higher Education  
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Commission on Higher Education (the Commission), on the systems, processes and behaviors related to financial activity of the Commission for the fiscal year ended June 30, 2017. The Commission's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Commission. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

This report is intended solely for the information and use of the governing body and management of the South Carolina Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor****Agreed - Upon Procedures Related to the South Carolina Commission on Higher Education (H03)****Cash Receipts/Revenues**

1. Compared current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtained and documented an understanding of variations over \$200,000 and 10%.
2. Randomly selected twenty-five cash receipts transactions and inspected supporting documentation to:
  - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
  - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
  - Ensure that both revenue collections and amounts charged were properly authorized by law.
3. Randomly selected five cash receipts and inspected supporting documentation to determine that receipts were recorded in the proper fiscal year.

**Finding**

The date of receipt was not properly documented for various checks included in two receipt transactions. As a result, we were unable to determine if these checks were deposited in a timely manner in accordance with State law.

**Management's Response**

We agree that the date of the receipt was not properly documented. This deficiency was identified during our last audit and has been corrected. New internal policies have been adopted and refined to ensure complete compliance with this audit requirement. The agency now photocopies all checks, and date stamps the photocopies, on the day the check is received. Checks (and cash) are deposited within five business days of receipt. Staff is aware of the requirement and its critical function.

**Cash Disbursements/Non-Payroll Expenditures**

4. Compared current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtained and documented an understanding of variations over \$210,000 and 10%.
5. Randomly selected twenty-five non-payroll disbursements and inspected supporting documentation to determine:
  - Transaction was properly completed as required by Commission procedures; invoice(s) agreed with general ledger as to vendor, amount, number, and date.
  - All supporting documents and approvals required by Commission procedures and good business practice were present and agreed with the invoice.
  - The transaction was a bona fide expenditure of the Commission, properly coded to the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
  - Clerical accuracy / confirmed proper sales/use tax.

## **Cash Disbursements/Non-Payroll Expenditures (Continued)**

For federally funded cash disbursements/non-payroll expenditures, we inspected supporting documentation to determine:

- Charges were necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly selected ten non-payroll disbursements and inspected supporting documentation to determine that disbursements were recorded in the proper fiscal year.
  7. Haphazardly selected twelve purchasing card disbursements from the Comptroller General's listings of purchasing card transactions for fiscal year 2017 to determine:
    - The cardholder was authorized.
    - The purchase was authorized based on the cardholder's job title/position.
    - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
    - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

### **Finding**

Monthly purchase summaries for nine of twelve purchasing card transactions inspected did not have the required signatures of the applicable cardholder and approver. The Commission began signing and approving the monthly summaries beginning with the March 28, 2017 - April 28, 2017 summary.

### **Management's Response**

We agree that purchase summaries for nine purchasing card transactions were not signed. When the current Interim President and Executive Director began at the agency in April 2017, he implemented a policy requiring the agency to begin approving and signing the monthly summaries. Since the April 2017 purchase summary, every cardholder (and their Director) have been instructed to sign the summaries and, to the best of our knowledge, have done so. Staff will continue to ensure purchase summaries are signed before processing payment.

### **Payroll**

8. Compared current year payroll expenditures at the subfund and account level to those of the prior year. Obtained an understanding of variations over \$210,000 and 10%.
9. Randomly selected six employees and inspected supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person was a bona fide employee of the Commission.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes had been properly approved.

## **Payroll (Continued)**

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person was a bona fide employee of the Commission.
  - Confirm the hourly rate and time sheets were properly approved; recalculate gross pay.
10. Haphazardly selected five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Commission's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
  11. Haphazardly selected five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Commission's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
  12. Compared the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. There were no changes greater than 10%.
  13. Computed the percentage distribution of fringe benefit expenditures by fund source and compared to the actual distribution of recorded personal service expenditures by fund source. There were no changes greater than 10%.

## **Finding**

The Commission could not locate documentation to support the approval of the hourly rate paid to one employee. As a result, we were unable to verify the rates and determine whether the employee's first and last paychecks were properly calculated.

## **Management's Response**

We agree with the finding that there was no documentation regarding the approval of the hourly rate for one employee. However, there is no indication that the agency improperly paid any employees. The human resource files were not properly maintained on this employee. In fiscal year 2018, the Commission on Higher Education transferred administration of the agency's human resource functions to the Department of Administration. As a result, our human resource files are now being properly maintained, and any personnel or payroll action requires documentation that will be placed in the relevant file.

## **Journal Entries and Transfers**

14. Randomly selected six journal entries and transfers for the fiscal year to:
  - Trace postings to the general ledger, confirming amounts agreed with supporting documentation.
  - Confirm transaction was properly approved.
  - Inspect supporting documentation to confirm the purpose of the transaction.

## **Finding**

For four of six journal entries inspected we observed no work flow approval in the South Carolina Enterprise Information System (SCEIS) nor any other documentation of approval.

## **Journal Entries and Transfers (Continued)**

### **Management's Response**

We agree with the finding. Journal entries and transfers (JE's) are initiated and prepared by the division's Accountant. The agency has recently entered into a Memorandum of Understanding with the Department of Administration (DOA) to have DOA provide accounts payable services to the agency. As a part of this MOU, the agency is requesting DOA to review these processes and procedures and ensure that journal entries are properly documented in SCEIS.

### **Appropriation Act**

15. Inspected the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. Confirmed compliance with the selected agreed-upon Commission-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

### **Findings**

The Commission did not complete an inventory of personal property in fiscal year 2017 as required by State law. Commission personnel stated an inventory for fiscal year 2018 had been completed.

The Commission could not provide the Sole Source Justification form for five contracts procured as sole source procurements in fiscal year 2017 as required by State law.

### **Management's Response**

We agree that the agency did not conduct an inventory in FY 2017. On October 12, 2017, the agency began the inventory of personal property and completed the inventory in November 2017. For the FY 2018 audit, the agency will be compliant with state's inventory requirements and will conduct annual inventory evaluations in the future.

We agree that we were not compliant in providing sole source justification for all the sole source vendors. The agency has recently entered into a Memorandum of Understanding with the Department of Administration (DOA) to have DOA provide procurement services to the agency and will now require staff to consult with DOA staff and attach the sole source certification to the invoices of all sole source vendors.

### **Reporting Packages**

17. Obtained copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspected the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
18. In addition to the procedure above, we performed the following:
  - Grants and Contributions Revenue Reporting Package
    - Determined if the reported receipts and qualified expenditures agreed to the SCEIS general ledger and/or SCEIS Display Grant Master. In addition, recalculated the reported total receivables and deferred revenue to determine accuracy.

## Reporting Packages (Continued)

- Capital Assets Reporting Package

Determined if responses and reported amounts were reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Commission prepared records. Haphazardly selected five capital asset acquisitions to (1) determine that the asset was properly posted to the general ledger as to amount and account, (2) inspect documentation to determine that the asset was properly capitalized, (3) determine that the asset was assigned useful life in accordance with Exhibit 3.8 (B) of CG's Reporting Policies and Procedures Manual.

- Operating Leases Reporting Package

Determined if amounts agreed to the SCEIS general ledger, the SCEIS Yearend Reporting Operating Lease Expense with Vendor report and/or Commission prepared records. In addition, based on inspection of invoices and lease agreements, determined if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected contingent rental payments; and (2) Five haphazardly selected payments remaining rental payment classifications (One Time Rental Payments and Other Adjustments).

- Accounts Payable

Determined if responses and reported amounts were reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor and/or Commission prepared records. Haphazardly selected ten prior year payable transactions to determine if the amounts were properly classified, calculated and reported on the reporting package.

- Subsequent Events Questionnaire

Determined if responses were reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Commission prepared records. In addition, haphazardly selected two payables from the Subsequent Events Accounts Payable Worksheet and determined if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

## Findings

The Commission classified mail meter payments of \$3,711 that were supported by lease agreements as other adjustments instead of as operating leases. The Commission also classified rental car payments of \$5,524 as contingent rentals instead of other adjustments. In addition, the operating lease payments were improperly excluded from the Operating Leases Future Minimum Payment Schedule.

Further, the Commission coded payments of \$18,295 to G/L account 5040050000 - Non-IT-Rental-Contingent Rental Payments. As the payments were based on number of copies, these payments should have been coded to G/L account 5040057000 - IT-Rental-Contingent Rental Payments.

The Commission coded the payment for mail meter maintenance to G/L account 5040010000 - Rent-Office Equip but should have coded it to G/L account 5041469301 - Rent/Lease Equipment - Repairs & Maintenance. Per inspection of document # 3008789501, it is unclear if the transaction is only for maintenance or a combination of maintenance and mail meter rent. We suggest the Commission request clarification from the vendor(s) to better understand the purpose of the invoice and to seek guidance from the CG's Office for proper account coding.

## **Reporting Packages (Continued)**

### **Findings (Continued)**

The Commission improperly capitalized several assets. For three invoices inspected we determined the Commission capitalized the total cost of each invoice as one asset; however, each invoice was for multiple assets all individually costing less than \$1,000. The total cost of another invoice which included four assets individually costing over \$5,000, was capitalized as one asset.

### **Management's Response**

We agree with the findings. These errors occurred due to Staff misinterpretation of contingent rentals, operating leases and capital assets. As a result, there was misreporting on the Operating Leases and Capital Assets Reporting Packets. While transactions were improperly classified and/or documented, it does not appear that any funds were improperly spent. The agency has recently entered into a Memorandum of Understanding with the Department of Administration (DOA) to have DOA provide accounts payable, procurement and fiscal reporting services to the agency. As a part of this MOU, the agency is requesting that DOA staff review policies and procedures to ensure compliance with all reporting regulations.

### **Minutes**

19. We inspected the Commission's approved minutes beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.

### **Status of Prior Findings**

20. Through inquiry and inspection, determined if the Commission had taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found similar exceptions regarding Receipt Dates, Approval of Hourly Rate, Inventory of Personal Property, and the Operating Leases Reporting Package. See the respective sections for findings.